



HONG KONG MONETARY AUTHORITY

香港金融管理局

Our Ref: B1/15C
G16/1C

19 November 2012

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Selling of Fixed Income Products

Further to the HKMA's circular "Selling of Investment Products" of 5 January 2012 which, inter alia, provides guidance in relation to selling of certain debentures with special features and risks that warrant particular attention, we are writing to draw your attention to the circular on "Selling of Fixed Income Products" issued today by the Securities and Futures Commission (the SFC Circular).

In addition, in the light of the special features and risks of certain fixed income products as compared to other plain vanilla investment products, we have decided to extend audio recording and pre-investment cooling-off period arrangements to these products as explained below.

Authorized Institutions (AIs) should take prompt action to implement, where necessary, enhancement in controls to ensure compliance with the SFC Circular as well as this circular. The HKMA will assess AIs' compliance with these requirements in its supervisory process.

Audio recording of sale process

According to the HKMA's circular "Streamlined Sales Process for Investment Products" of 6 April 2011, AIs are required to audio-record the face-to-face sales to retail customers of debentures with features and risks that are different from other plain vanilla debentures, including debentures which are non-investment graded, unrated (for both the issue and the issuer), subordinated and / or perpetual.

Applying this principle, AIs' face-to-face sales to retail customers of (i) debentures which are extendable, exchangeable, convertible and / or with non-viability loss absorption feature, or (ii) investment funds primarily investing in high-yield bonds (which are generally below investment grade or are unrated) should also be audio-recorded.

For the avoidance of doubt, if the sale process in relation to any customer (a retail customer or otherwise) is conducted by telephone, the relevant telephone conversation(s) must be audio-recorded.

AIs should ensure that their frontline staff have ready access to clear and comprehensive information in respect of each particular product to ensure audio-recording is carried out for face-to-face sales to retail customers where required.

Pre-Investment Cooling-Off Period Arrangement (PICOP)

AIs should apply PICOP to the sale to less sophisticated retail customers of debentures which are not listed on an exchange in Hong Kong and have one or more of the following features:

- extendable;
- exchangeable;
- convertible (including contingent convertible); and / or
- with non-viability loss absorption feature (e.g. bail-in).

Less sophisticated retail customers include (i) the elderly, and (ii) first time buyers of debentures with any of the above features but with high concentration. AIs should adopt a prudent approach in determining whether a customer is a “first-time buyer” of a particular debenture (having regard to the differences in the nature and risks of each of the four features) and take into account a customer’s actual investment experience in debentures with the above features. For details of the PICOP arrangement, please refer to the HKMA’s circular “Implementation of Pre-Investment Cooling-off Period for Retail Customers” of 20 May 2010.

In view of the preparatory work to be carried out by AIs, the HKMA expects the extension of PICOP arrangement to debentures with any of the above four features to be implemented by AIs no later than 6 months from the date of this circular.

If you have any questions on this circular, please contact Ms Florence To at 2878-1582, or Ms Ada Au at 2878-8814.

Yours faithfully,

Meena Datwani
Executive Director (Banking Conduct)

Encl.

c.c. Securities and Futures Commission (Attn: Mr Stephen Po, Senior Director of Intermediaries Supervision)